

AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the Executive Budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate setting.

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

Legislative Branch
Consumer Counsel
Judiciary
Montana Chiropractic Legal Panel
Governor's Office
Secretary of State
Commissioner of Political Practices
State Auditor
Transportation
Revenue
Administration
Appellate Defender Commission

HEALTH AND HUMAN SERVICES (Section B)

Public Health and Human Services

NATURAL RESOURCES AND COMMERCE (Section C)

Fish, Wildlife, and Parks
Environmental Quality
Livestock
Natural Resources and Conservation
Agriculture
Commerce

CORRECTIONS AND PUBLIC SAFETY (Section D)

Crime Control Division
Justice

CORRECTIONS AND PUBLIC SAFETY (continued)

Public Service Regulation
Corrections
Labor and Industry
Military Affairs

EDUCATION (Section E)

Office of Public Instruction
Board of Public Education
School for the Deaf and Blind
Commissioner of Higher Education
Community Colleges
University Units and College of Technology
Agricultural Experiment Station
Extension Service
Forestry and Conservation Experiment Station
Bureau of Mines & Geology
Montana Arts Council
State Library Commission
Fire Services Training School
Montana Historical Society

LONG-RANGE PLANNING (Section F)

Long-Range Building Program
Treasure State Endowment Program
State Building Energy Conservation
Resource Indemnity Trust Interest Account
Cultural and Aesthetic Grant Program
Libby Bond Program

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the “Agency Budget Analysis” is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the Executive Budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget.
2. Present law budget.
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the “Reference” section in Volume 1, or the publication entitled “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division.) The analysis is presented in such a way as to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the Executive Budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the Executive Budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the Executive Budget or with any other aspect of agency operations and expenditures, they are included as an “LFD Issue”. The analyst may also provide additional information to aid the legislature in its decision making under the heading “LFD Comment”. All issues and comments are clearly identified in the narrative.
2. Other issues and options. In order to provide the legislature with alternatives to the Executive Budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

- 1) the agency narrative
- 2) the program narrative

Agency Narrative

The agency narrative provides an overview of the Executive Budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the Executive Budget request by year, including separate columns showing present law adjustments and new proposals. The reader can use this table to not only get a general idea of the size and funding of the agency, but also view any changes proposed by the Governor.
2. **Agency Description** is a brief description of the agency.
3. If included by the executive, a discussion of the following three types of proposals is included, each with LFD comments as appropriate:
 - **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for fiscal 2003, or supplemental appropriations approved in fiscal 2002
 - **Reorganization** details any major reorganization that took place in the 2003 biennium or is proposed by the executive for the 2005 biennium
 - **Language Recommendations** includes any agency-wide language proposed by the executive
4. **Agency Discussion** includes tables showing highlights of proposed budget and major LFD issues, and any related discussion. It is designed to aid the reader in gaining an understanding of the agency overall budget or significant budget areas.
5. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
6. **Biennium Comparison Table** compares adjusted actual fiscal 2002 expenditures and appropriations for fiscal 2003 (the 2003 biennium base) to the 2005 biennium Executive Budget so the reader can get a general sense of the change between biennia.
7. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
8. **Proposed Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.
9. **New Proposals Summary Table** summarizes all new proposals proposed by the executive for the agency. An explanation of and comments on each of the new proposals is included in the relevant program narratives.
10. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the Executive Budget.

Note: The main and biennial comparison tables, the agency description, and the agency discussion and funding tables are included in each agency narrative. However, the other components are “optional”, indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including the adjusted fiscal 2002 base used to derive the budget, the total present law adjustments, new proposals, and the total Executive Budget, by fiscal year.
2. **Program Description** is a short description of the program and its functions.
3. **Reorganization** details any program reorganizations that took place in the 2003 biennium or that are proposed by the executive for the 2005 biennium.
4. **Program Discussion** details any points of overall program discussion by the LFD analyst. This section contains a table highlighting major budget factors and LFD issues.
5. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
6. The **Executive Present Law Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
 - statewide present law adjustments, which include most personal services adjustments, the executive’s vacancy savings recommendation, and adjustments due to fixed costs and inflation
 - other present law adjustments proposed by the executive
7. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The adjustment descriptions are written by the LFD analyst based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
8. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.
9. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive.
10. **Language Recommendations** recreates any program specific language proposed by the executive, with LFD comments as appropriate.
11. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following.

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through fiscal 2005.
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the 2005 biennium personal services costs different from actual fiscal 2002 costs. The most important are:

2003 Biennium Pay Plan and Other Benefits

The 2001 legislature adopted a pay plan that, among other features, provided two increases.

1. An overall increase in pay averaging about 4 percent each year.
2. An increase in insurance rates in each year of the biennium.

Since the pay plan was increased in fiscal 2003 and not fully implemented in the base year, adjustments were made to each employee’s compensation to reflect actual agency costs in the 2005 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers’ compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in fiscal 2002.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Classification Upgrades/Downgrades

All upgrades and downgrades of individuals or classes of positions authorized during the biennium through the “snapshot” date (June of fiscal 2002) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue.

Vacancy Savings

The executive has proposed a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty and those in agencies with fewer than 20 full-time equivalent positions.

Inflation/Deflation

The Executive Budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the Executive Budget has been included in the "Reference" section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Natural Resources Subcommittees will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the "Reference" section of Volume 1.

AGENCY BUDGET HIGHLIGHTS

The following summarizes the main budget highlights of the 2005 biennium Executive Budget. Please note that the following discussion pertains to HB 2 expenditures only. HB 2 appropriates over 80 percent of all general fund. However, reimbursements to local governments under HB 124 passed by the 2001 legislature are statutorily appropriated and are therefore not part of the following discussion.

PRIMARY BUDGET FACTORS

The 2005 biennium Executive Budget is defined by a series of additions and reductions in varying sizes and impacts among all agencies. The following summarizes the primary factors:

- 10.02 FTE in fiscal 2004 and 56.84 FTE in fiscal 2005 would be added. This total is the net after reductions in a number of agencies totaling 156.87 FTE in fiscal 2004 and 213.00 FTE in fiscal 2005.
- General fund would increase by only \$5.6 million, or less than 1 percent, from the 2003 biennium. However, this figure is misleading in that it includes the impacts of a funding switch that re-classified interest and income revenues supporting K-12 education as state special revenue that had been funded from the general fund in fiscal 2002. If this factor is removed, general fund increases by \$54.5 million.
 - The increase is dominated by funding for costs of state assumption of district courts and by population increases in corrections
- Present law changes are dominated by three factors:
 - Increases for statewide present law adjustments, including full funding of personal services (minus vacancy savings), fixed costs, and inflation
 - Caseload and enrollment changes
 - Reductions to continue the Governor's 17-7-140 spending reductions (although maintenance of precise actions taken in fiscal 2003 cannot be assumed)
- General fund new proposals are dominated by reductions to meet general fund targets within individual agencies. New proposal increases add a total of \$22.2 million general fund, but are dwarfed by reductions of \$86.9 million.
 - General fund new proposals are distinguished by a lack of a clear executive policy initiative. Major increases are to replace funding and address caseload increases in foster care, for developmental disabilities services (in part due to a reduction in federal funding), to discontinue POINTS II (although the total funding request would increase), and \$6.0 million for schools.
- Total new proposals decrease by \$0.7 million in fiscal 2004 and \$4.8 million in fiscal 2005. The smaller decrease primarily reflects additional state (most notably highway state special revenue bonding proceeds) and federal funds available.
- Few functions of state government are eliminated or significantly reduced, and these are primarily concentrated in human services programs. In most cases, the executive has identified a general fund reduction goal, but is nebulous about what precise measures will be taken to achieve this level of expenditure and the potential impact on services. LFD staff has attempted to ascertain anticipated impacts on services in the narratives that follow.

COMPARISON OF PROGRAM AREAS

Because the change in classification of interest and income funds supporting schools does not represent a reduction in funding available, the following comparisons address this factor by adjusting actual fiscal 2002 expenditures for this change to more accurately reflect actual changes. The following figure shows a comparison of biennia without factoring the interest and income revenues.

General Fund Increases by Major Component 2005 Biennium (in Millions)				
Component	Executive Budget	Increase Over 2003	Percent Increase	Percent of Increase
K-12 Education*	\$ 1,023.02	\$ (53.18)	-4.9%	-948.5%
Higher Education	273.38	0.38	0.1%	6.7%
Human Services	531.20	5.68	1.1%	101.3%
Corrections	209.86	14.65	7.5%	261.4%
All Other Government Agencies	<u>278.68</u>	<u>38.08</u>	<u>15.8%</u>	<u>679.2%</u>
Total	<u>\$ 2,316.14</u>	<u>\$ 5.61</u>	<u>0.2%</u>	

*Does not factor out the impact of change in classification of interest and income revenues.

The following compares major budget components by biennia by factoring out the interest and income revenues. These figures will be used in the following discussion.

General Fund Increases by Major Component 2005 Biennium (in Millions)				
Component	Executive Budget	Increase Over 2003	Percent Increase	Percent of Increase
K-12 Education*	\$ 1,023.02	\$ (4.24)	-0.4%	-7.8%
Higher Education	273.38	0.38	0.1%	0.7%
Human Services	531.20	5.68	1.1%	10.4%
Corrections	209.86	14.65	7.5%	26.9%
All Other Government Agencies	<u>278.68</u>	<u>38.08</u>	<u>15.8%</u>	<u>69.8%</u>
Total	<u>\$ 2,316.14</u>	<u>\$ 54.54</u>	<u>2.4%</u>	

*The 2003 figure used to compare to the 2005 biennium is adjusted for the change in classification of school trust interest and income to reflect the true change. Fiscal 2002 expenditures were adjusted by \$48.94 million. Actual general fund expenditures in fiscal 2002 were \$560.55 million, which would have resulted in a biennial reduction of \$53.18 million.

The main program areas show the following.

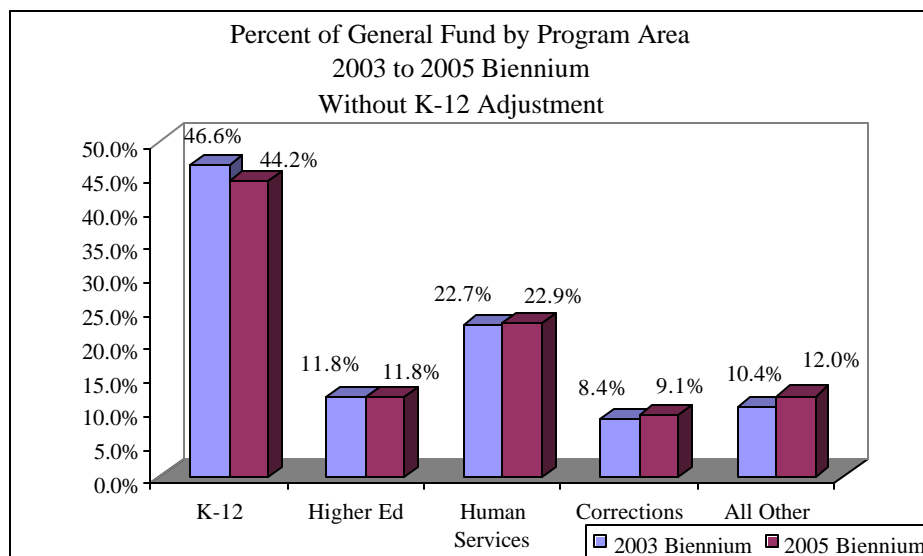
- While K-12 education shows a slight decrease, the executive is proposing a number of policy initiatives that would shift funding and tax burdens. In addition, the executive has proposed additional funding for K-12, as reductions in average number belonging (ANB) would reduce the 2005 biennium budget compared to the 2003 biennium level.
- Higher education is essentially held constant to the 2003 biennium level. This level in turn was significantly reduced in fiscal 2003 from the appropriation made by the 2001 legislature through budget reduction measures by the Governor under 17-7-140, and the legislature in special session.
- The Department of Corrections increase is primarily due to increased populations

- The 1.1 percent increase for the Department of Public Health and Human Services is the lowest increase in percentage and dollars in a number of biennia. Due to caseload increases, primarily in Medicaid, the overall increase reflects a number of service reductions, particularly in other Medicaid services and mental health services.

As shown, the primary areas of increase are “all other state government”. This increase is dominated by three factors:

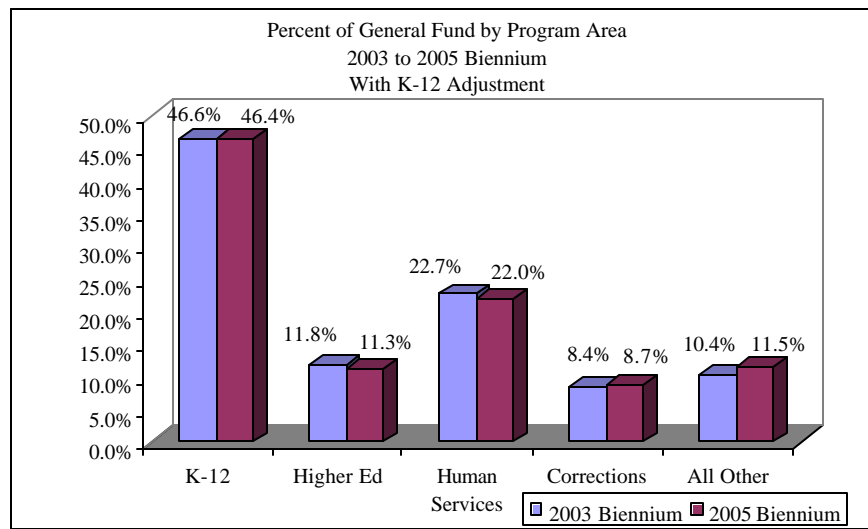
- Assumption by the State of the District Courts - Fiscal 2002 does not include any costs (except about \$200,000 of administration) to assume the district courts. Fiscal 2003 includes about \$18.3 million. The increase in the 2005 biennium is \$18.9 million.
- Motor Vehicle Division Funding – The legislature replaced general fund in the Motor Vehicle Division in the Department of Justice with highways state special revenue in fiscal 2003. The executive is proposing to return funding to the general fund, adding \$6.6 million over the 2003 biennium level.
- Department of Natural Resource and Conservation – This agency increases about \$7.6 million overall, primarily due to a reduction in the fiscal 2003 appropriation as a result of special session reductions and the transfer of \$3.3 million to fiscal 2002 to pay fire costs. Increased payments to the Crow Tribe add another \$1.0 million.

The following figure shows the allocation of general fund by program area for the 2005 biennium compared to the 2003 biennium.



All other government shows a large increase due to the factors discussed above, while K-12 education shows a reduction. However, these figures are again misleading in that a significant amount of funds that support K-12 education are not included – the reclassified interest and income revenues.

If these revenues were included, the comparison would show the following.



SOURCE OF FUNDING

The following figure illustrates that, in keeping with a trend for a number of years, federal funds continue to represent a greater share of state funding while the general fund, while growing, assumes a smaller share. Please note three things when examining the table:

- The reduction in general fund is partially due to the reclassification of interest and income revenues for schools
- \$111.5 million of the increase in federal funds is due to an accounting change that necessitates direct appropriation of federal food stamp benefits
- State special revenue is overstated due to bond proceeds for work on highway 93 that add about \$87.6 million

